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Substantive Comments on the Draft Chapters of the 1993 System of National Accounts Revision 1

Chapter 10: The capital account

Addendum from the Editor
Licences to use natural resources (fish and others)

Part of the discussion on the classification of permits to undertake specific activities concerned the distinction between permission to undertake a specific activity depending on whether or not there was an underlying asset. In the case of a casino licence or a taxi licence there is no underlying asset in the sense that the permission does not extend to using an asset that is owned by the permit issuer. Such a licence is treated as a tax. On the other hand a licence to use a mobile phone licence is deemed to be an asset because the radio spectrum concerned is an [underlying] asset and one that is owned by the issue of the permit, that is government. Two quibbles with this analysis are possible as a result of which a clearer ruling might be possible. The purpose of this short note is to explain the quibbles and suggest the alternative.

The first quibble concerns whether the radio spectrum, in the absence of a permit to use it, is in fact an asset. To the extent that the radio spectrum has no value on the absence of a licence to use it, it is not, strictly speaking an asset in the System.

The second quibble concerns what types of asset the “underlying” asset is. To the extent that the asset is a produced asset, the licence to use it is deemed to be either an operating lease of a financial lease. We do not actually need to include a licence to use a produced asset in the category of licences to engage in specific activities. Similarly, we have agreed to treat a licence to use a natural resource that qualifies as an asset in the System as a resource lease.

Taking these two consideration together, the suggestion is that we might qualify the discussion about permission to undertake specific activities to say they are taxes unless they involve permission to use a natural resource that has no value in itself and is thus not within the asset boundary of the System. A permission to use such a resource would be treated as an asset. This is how it would play out in a number of cases.

The radio spectrum case is straightforward and involves no change to what has been previously agreed.

An emission trading permit would be treated as an asset and not as a tax since the atmosphere is not treated as an asset. This is in accordance with economic thinking that the move to using permits is to invoke market forces rather than the tools of a command and control economy such as taxes and laws.

Fishing and logging permits that allowed off-take only within the sustainable level of harvesting could also be treated in this way since the value of the fish or timber would not be depleted by the harvesting. Alternatively, it could be assumed that the sustainable level of the fish or timber had a value, included in the balance sheet of the nation, and the value of the fishing quota was determined by estimating the value of the harvest permitted by the quota. In the other cases mentioned, the value of the asset can be set by the initial cost up-rated as necessary in accordance with market conditions. Many fishing quota are issued without charge on the basis of past custom so an initial value has to be determined independently. The value of the permitted harvest is one such possible means of estimation.